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Campeau Corporation
Annual Report 1978

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Financial Highlights

	1978	1977
Total Assets	\$721,036,000	\$621,603,000
Revenue		
Income Properties	73,396,000	56,096,000
Housing*	54,069,000	58,999,000
Lumber and Building Products	39,092,000	24,656,000
Hotel	26,072,000	20,400,000
Land	14,021,000	7,311,000
Other	2,519,000	2,342,000
Cash Flow	11,817,000	9,481,000
Net Earnings before Extraordinary Items	523,000	2,489,000
Per Common Share **		
Cash Flow	\$ 3.09	\$1.31
Earnings:		
Before extraordinary items	—	.28
After extraordinary items	—	.38

* Including rentals sold as condominiums.

** Based on the weighted average number of shares outstanding during the year and after deducting preference dividends.

Auditors :

Peat, Marwick, Mitchell & Co.

Transfer Agent :

Royal Trust Corporation of Canada

Montreal, Toronto

Registrar :

Guaranty Trust Company of Canada,
Montreal, Toronto

Head Office :

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Station A, Ottawa, Ontario

K1N 8R9 Canada

Telex 0533303 / Telephone (613) 596-4110

Annual Meeting :

The Annual Meeting of shareholders will be held at 11:15 o'clock in the forenoon on Thursday, the 19th day of April, 1979 in the Chaudière Room, Skyline Hotel, in the City of Ottawa, Ontario.

Shareholders of record at the close of business on April the 17th, 1979, will be entitled to vote at that meeting.

Report to Shareholders

The Board of Directors is pleased to present this Annual Report of Campeau Corporation for the year ended December 31, 1978.

In 1978, the Corporation attained its objectives of substantial growth in assets and corporate revenues. Net earnings however, declined from the previous year primarily as a result of significant adjustments made in the Housing and Building Products Divisions and also due to continuing losses in the Toronto Harbour Castle Hilton Hotel.

Total revenues increased to \$209,169,000 in 1978 from \$169,804,000 in 1977. After giving effect to certain changes in accounting policies which are explained in the financial statements, net earnings amounted to \$523,000 compared with \$2,489,000 in the previous year. Cash flow from operations increased substantially to \$11,817,000 in 1978 from \$9,481,000 in 1977. The book value of assets at year-end was \$721,036,000.

The financial performance in 1978 of the income property division was excellent measured in terms of both growth and profitability levels. Cash flow generation from this sector continues to be a major stabilizing factor for the Corporation. In the shopping centre sector, the first phase of a \$16 million expansion of the Oshawa Shopping Centre is now complete and all of the newly created space has been fully leased. A new re-located Loblaws store will open in the second quarter of 1979, and a theatre expansion as well as the re-cycling of the old Loblaws space will be carried out shortly thereafter. This Centre, with its 1,000,000 square feet of leaseable retail area, will now be one of the largest shopping centres in Canada and one of the few anchored by three major department stores, Eatons, Hudson's Bay and Sears.

The grand opening of Le Carrefour Rimouski, a 365,000 square foot shopping centre in Rimouski, Québec, in which the Corporation has a fifty percent interest was held on October 11, 1978. Anchored by Hudson's Bay, K-Mart, Canadian Tire and Dominion Stores, this centre is being well received and has achieved excellent sales volumes.

The Commercial Development Division has a number of additional shopping centre projects in various stages of development and is continuing to aggres-

sively pursue opportunities in this very attractive area of real estate investment.

In the office building sector, construction of the 1,800,000 square foot Les Terrasses de la Chaudière complex, in Hull, was completed. This project is now fully occupied and the long-term financing was completed on November 30, 1978 through the issuance of \$48,500,000 Series C First Mortgage Sinking Fund Bonds.

As reported last year, a substantial portion of one tower of the Place de Ville complex became vacant as a result of the Federal Government's employment shift to Hull, Québec. During 1978, the Corporation renovated and modernized this space and its re-leasing is proceeding well. The tower is now sixty percent leased and full occupancy is projected by early 1980. However, the Centennial Tower has now been vacated for the same reason, and we anticipate that it will take two years to re-lease this 380,000 square foot building.

Construction has now commenced on a new thirty-three storey office complex in downtown Edmonton, Alberta.

Scheduled for completion in September, 1981 this 400,000 square foot office tower will be anchored by The Principal Group, a major western financial institution based in Edmonton, Alberta. This project is owned fifty percent by Campeau Corporation and the remaining interests are held by Hudson's Bay Company Developments Limited and Edmonton Properties Limited.

The Corporation has also acquired major sites for additional office developments in downtown Toronto, Edmonton, and San Francisco. Negotiations with lead tenants are proceeding and building plans and specifications are being finalized.

Six additional buildings totalling approximately 180,000 square feet are nearing completion in the Oakmead Industrial Park in Santa Clara, California. Leasing of these buildings is proceeding satisfactorily and both interim and permanent financing arrangements have been completed. The Corporation is also pursuing a number of additional commercial development opportunities in Florida, Texas and California.

The residential income portfolio continues to perform as expected and low vacancy levels (1.3%) continue to reflect strong demand for rental accommodation in the Ottawa Market.

Rent controls, in their present form, have been extended to June 30, 1979, and the Ontario Legislature's Bill 163 is expected to impose some form of controls beyond that date. Bill 163 covers not only the merging of the Landlord and Tenant Act with the Rent Review Act but also creates a Residential Tenancy Commission which will be granted quasi-judicial powers to deal with all matters pertaining to residential tenancies. This Bill is now in Committee and passage by the Legislature is generally expected in the second quarter of 1979.

The Housing Division closed 883 sales in 1978 compared with 1,111 during the previous year. Profit margins on units closed in Montreal and in the National Capital Region were lower, reflecting the Corporation's decision to reduce its inventory levels. New starts were restricted and at year-end, inventory levels of finished units had been reduced by thirty-eight percent in the Ottawa-Hull area and seventy-eight percent in the Montreal area from the levels held at December 31, 1977.

Results of the Corporation's housing operations in Alberta have exceeded projections. Phase I of the Point McKay townhouse condominium project in Calgary is now sold out and construction has commenced on Phase II, comprising seventy-five townhouse units. The one hundred and thirty-nine luxury condominium development, Roxboro House, also in Calgary, is now 90% sold and the remaining units are projected for closing in 1979.

Construction of the second tower of the Harbour Square condominium complex in Toronto is proceeding on schedule and agreements have been signed for the sale of over one-third of the 602 units available. First occupancies of this tower are projected for the second quarter of 1979.

Revenues from residential and commercial land sales were substantially above 1977 levels and include transactions in Ile Bizard and Ste. Rose, Québec, Ottawa, Calgary and Santa Clara County in Northern California. Supplies of serviced lots are considered adequate to meet the projected requirements of the Housing Division in 1979 as well as to permit a continued high level of sales of parcels of serviced land to other builders.

The Land Development Division expanded its activities into Southern California in 1978 and a branch office was

opened in Newport Beach. A fifty percent interest was acquired in approximately 3,300 acres of prime residential land located in Orange County. Draft plan approval for 124 half-acre lots was obtained in late 1978 and it is anticipated these lots will be registered in mid-1979. A tentative plan for 600 additional lots is being prepared for submission to local authorities and approval of this plan is also expected in mid-1979.

Additionally, the Corporation obtained an option to purchase a 1,260 acre parcel of residential land adjacent to the City of San Juan Capistrano in South Orange County and this option has now been exercised.

Sales of manufactured products, lumber and building materials totalled \$39.1 million in 1978 versus \$24.7 million in the previous year. The major factor contributing to these revenue gains was the return to normal levels of production at Gagnon and Frères de Roberval. In mid-1978 the Corporation sold the assets and businesses related to its European truss division and in the last quarter, the Building Products operations were restructured and the unprofitable manufacturing operations discontinued. All costs associated with the discontinuance of these sectors of Building Products operations have been provided for in 1978.

As a result of major gains in occupancy levels and higher average room rates, the operating performance of the Harbour Castle Hilton Hotel improved significantly over 1977. Further improvement in operating results is anticipated for 1979 as well, although continued increases in administrative expenses, taxes, and financial costs will continue to adversely affect earnings of this division.

The year 1978 saw little progress in resolving the basic problems which confront the Canadian economy. This country is still faced with unacceptably high levels of unemployment and inflation and continued high interest rates have not had the desired impact of encouraging capital inflows to offset the continued pressure on the Canadian dollar.

These high interest rates have an adverse effect on demand for housing and for building products related to housing particularly in our traditional eastern markets. As a result, the Corporation is accelerating its policy of expanding its

housing and land development operations geographically in order to reduce the cyclical exposure in these areas of development. Concurrently, the Corporation is continuing to place strong emphasis on the development and ownership of high quality commercial income producing properties located in major growth centres in Canada and the United States.

The Board of Directors acknowledges the efforts of both management and employees and looks forward to their continued support in the year ahead.

On behalf of the Board of Directors.



Chairman and Chief Executive Officer



President

Nepean

March 26, 1979

Summary of Income Properties

	Leasable Retail Area (square feet)	Leasable Office Area (square feet)
Shopping Centres		
Oshawa Shopping Centre, Oshawa, Ontario	901,182	70,783
New Sudbury Shopping Centre, Sudbury, Ontario	459,048	19,489
Wellington Square, London, Ontario	412,686	—
Timmins Square, Timmins, Ontario (50% owned)	359,411	—
Le Carrefour Rimouski, Rimouski, Québec (50% owned)	343,403	—
Place Longueuil, Longueuil, Québec (67% owned)	315,985	—
Golden Mile Plaza, Toronto, Ontario	244,529	18,129
Les Galeries Jonquière, Jonquière, Québec (50% owned)	245,186	—
Le Carrefour Alma, Alma, Québec (50% owned)	240,306	—
Town & Country Shopping Centre, Victoria, B.C.	234,667	—
Place du Saguenay, Chicoutimi, Québec (75% owned)	214,201	—
Kingston Shopping Centre, Kingston, Ontario	202,945	12,635
Golden Mile Plaza, Regina, Saskatchewan	203,752	9,869
Orillia Square, Orillia, Ontario (50% owned)	187,776	—
Beacon Hill Shopping Centre, Ottawa, Ontario	115,287	7,946
Inter-City Plaza, Thunder Bay, Ontario	106,750	7,274
Sunnybrook Plaza, Toronto, Ontario	90,790	5,572
Place Drummond, Drummondville, Québec	88,255	—
Dorwin Plaza, Windsor, Ontario	74,526	—
York Plaza, Toronto, Ontario	51,206	7,535
Other Retail Properties	500,603	59,599
Total Shopping Centres	5,592,494	218,831
Office Buildings		
Les Terrasses de la Chaudière, Hull, Québec	49,277	1,827,794
Place de Ville, Ottawa, Ontario	99,551	1,170,217
Journal Towers, Ottawa, Ontario	17,962	622,235
Centennial Tower, Ottawa, Ontario	5,634	374,046
Showmart, Montréal, Québec	77,996	103,745
Château Maisonneuve, Montréal, Québec	2,425	80,547
Sixth Street Building, Calgary, Alberta (51% owned)	—	68,164
Rayonier Building, Vancouver, B.C.	—	67,969
Other Office Buildings	4,751	42,541
Total Office Buildings	257,596	4,357,258
Total Shopping Centres and Office Buildings	5,850,090	4,576,089
Residential Properties		
Riverside Court Apartments, Ottawa, Ontario	757	—
Redwood Court Garden Homes, Ottawa, Ontario	640	—
Playfair Towers, Ottawa, Ontario	427	—
Champlain Tower, Ottawa, Ontario (50% owned)	243	—
Château Maisonneuve, Montréal, Québec	242	—
Kanata Garden Homes, Kanata, Ontario	232	—
Varley Apartments, Kanata, Ontario	85	—
Riverside Heights Garden Homes, Ottawa, Ontario	83	—
Other Residential Properties	69	—
Total Residential Properties	2,778	
Other Properties		
Other income properties owned by the Corporation include 149,024 leasable square feet of industrial space located in the Ottawa area, 637,127 leasable square feet of commercial/industrial space	located in the San Francisco Bay Area, the Toronto Harbour Castle Hilton Hotel, L'Auberge de la Chaudière in Hull, the Holiday Inn and Skyline hotels in Place de Ville, Ottawa, and the Blue Bonnets and Richelieu Raceways in Montréal.	

Summary of Significant Accounting Policies

General

The Corporation is a member of the Canadian Institute of Public Real Estate Companies. The Corporation's ac-

counting policies and its standards of financial disclosure are in accordance with the recommendations of that Institute in all material respects.

Principles of Consolidation

The consolidated financial statements include:

- (i) the accounts of the Corporation and all of its operating subsidiaries;
- (ii) the Corporation's proportionate

share of the assets, liabilities, revenues and expenses of joint ventures co-owned with other parties; and

(iii) the elimination of all material inter-company balances and transactions.

Accounting Changes

- (i) The Corporation retroactively changed its accounting policy with respect to translation differences related to long-term debt denominated in foreign currencies. Such differences are now amortized over the remaining term of the debt rather than over the original term of the debt as was previously the practice. The effect of this change has been to increase earnings and earnings per share by \$1,267,000 and \$.35 respectively and to decrease 1977 earnings and earnings per share by \$401,000 and \$.06 respectively.
- (ii) Effective January 1, 1978 the Corporation changed its accounting policy with respect to the capitalization of interest on general corporate borrowings related to land held for sale and development. Interest is now capitalized on the Corporation's in-

vestment, net of specific mortgages, at the average cost of general corporate borrowings. Previously, only interest related to general corporate borrowings used for specific significant land acquisitions were capitalized. The effect of this change has been to increase earnings and earnings per share by \$1,492,000 and \$.41 respectively.

- (iii) The Corporation retroactively changed its accounting policy with respect to incorporated joint ventures. The Corporation's proportionate share of assets, liabilities, revenues and expenses of such joint ventures are now included in the accounts whereas previously they were consolidated. This change has the effect of removing the unowned portion of the assets, liabilities, revenues, expenses and minority interests and has no effect on net earnings.

Land Held for Sale and Development

Land held for investment in income-producing properties is carried at cost and land held for sale is carried at the lower of cost and estimated net realizable value. Cost of land includes original cost plus real estate taxes and interest on funds borrowed, including an allocation of in-

terest on general corporate borrowings. In addition, the carrying value of land currently under development includes the estimated total costs of municipal services and other costs incurred to date. Net miscellaneous revenues from vacant land are credited to the carrying value of such vacant land.

Rental Properties and Hotels

Rental properties and hotels are shown in the balance sheet at cost less accumulated depreciation. Costs include real estate taxes, interest and general and administrative costs related to construction. Such costs of redeveloping rental properties are also included in the carrying value of the buildings.

Start-up costs, net of revenue, for rental properties under development are added to the carrying value of the properties until completion. A rental property is deemed to be completed when the break-even point in cash flow earnings is attained, barring prolonged delays in construction or leasing. Hotels are deemed to be completed on the date of opening.

Deferred Hotel Costs

Pre-opening costs and operating costs net of revenue from the date of opening to the

date upon which the Hotel becomes fully operational are deferred and are amortized over five years.

Foreign Exchange

Debt payable in foreign currencies is translated at rates established under contracts for future delivery of the currency or, if unhedged, at current rates at the

date of the balance sheet. Unrealized gains or losses on unhedged debt are amortized on a straight-line basis over the remaining term of the debt.

Income Taxes

Income taxes are recorded on the tax allocation basis. Deferred income taxes result primarily from:

- (i) the difference between depreciation recorded for accounting purposes and capital cost allowance claimed for

income tax purposes; and

- (ii) certain development costs of rental properties and hotels, and land carrying charges capitalized or deferred for accounting purposes but deducted for income tax purposes.

Earnings Recognition**(i) Detached and semi-detached house sales**

Revenue is recorded at the time title passes to the purchaser.

(ii) Condominium housing sales

Revenue is recognized at first closing when the purchaser is entitled to

possession.

(iii) Land sales

Revenue from land sales is recorded on the date upon which the agreement becomes unconditionally binding upon purchaser and vendor. Generally, this is the date on which title passes to the purchaser.

Depreciation**(i) Rental properties and hotels**

Depreciation on buildings is provided on the sinking fund method in annual amounts increasing at the rate of 5% compounded annually, which is designed to fully amortize the costs of the buildings over their estimated useful lives. Under this method, depreciation charges to income in later years will be substantially higher than the amounts charged in earlier years.

The estimated useful lives of buildings are mainly as follows:

Office buildings ..	40 to 60 years
Hotels	60 years
Apartment buildings and shopping centres	30 to 50 years
Garden homes and townhouses	40 years

Commercial/Industrial

buildings 30 years

Furniture and equipment are depreciated on the diminishing balance and straight-line methods at various rates. Tenant improvements are amortized over the term of the leases.

Raceways and related appurtenances are depreciated on the straight-line method at the rate of 2½% annually for tracks, sewers, parking lots, buildings and fences and 10% annually for equipment.

(ii) Other property, plant and equipment

Other property, plant and equipment are depreciated on the diminishing balance method at the rates of 5% and 10% annually for occupied premises, 30% annually for construction equipment and rolling stock and 20% annually for other equipment.

Disposition of Rental Properties

The portfolio of rental properties is continually being reviewed in keeping with changes in the overall market conditions of the industry as well as the degree of success of any specific property. Therefore, dispositions of rental properties are expected to occur periodically. Accordingly, gains or losses resulting from the disposition of such rental properties are included in the determination of

earnings.

From time to time the Corporation converts residential rental properties to condominiums. The net book value of such units are transferred from rental properties to inventory when the units are made available to the Corporation's Housing Division. The sales and costs are included in the determination of earnings in accordance with the Corporation's policy with respect to housing sales.

Pension Costs

Pension costs for current service are funded and charged to earnings each

year. Past service costs are funded and charged to earnings over the years to 1993.

Campeau Corporation
Consolidated
Balance Sheet
(Note 1)

December 31, 1978 with comparative figures for 1977

	1978	1977
	(in thousands)	
Assets		
Cash	\$ 684	820
Accounts, loans and mortgages receivable (note 3)	36,143	30,966
Inventories (note 4)	59,502	66,479
Land held for sale and development (note 5)	125,975	86,732
Rental properties; hotels; other property, plant and equipment (note 6)	477,070	422,962
Other assets and deferred charges (note 7)	<u>21,662</u>	<u>13,644</u>
	\$721,036	621,603
Liabilities		
Bank indebtedness — short-term, secured (note 8)	\$ 31,716	36,900
Accounts payable and accrued liabilities	41,501	42,683
Advances relating to land and housing	42,036	40,787
Long-term debt, per accompanying Schedule 1	534,046	434,771
Deferred income taxes	<u>36,749</u>	<u>33,048</u>
	686,048	588,189
Shareholders' equity (note 10):		
Capital stock	18,354	16,044
Retained earnings, per accompanying statement	<u>16,634</u>	<u>17,370</u>
Total shareholder's equity	34,988	33,414
Contingent liabilities and commitments (notes 9 and 14)		
	\$721,036	621,603

See accompanying notes to consolidated financial statements

On behalf of the Board:

Director

Director

**Consolidated
Statement of Earnings
(Note 1)**

Year ended December 31, 1978 with comparative figures for 1977

	1978	1977
	(in thousands)	
Revenue (note 2)	\$209,169	169,804
Expenses (note 2):		
Cost of sales	147,413	125,961
Financing	37,224	25,475
General and administrative	15,390	11,790
Depreciation and amortization	6,110	5,263
	206,137	168,489
Gain on disposal of rental property	3,032	1,315
	725	—
Income tax (note 9)	3,757	1,315
	3,234	(1,174)
Earnings before extraordinary item	523	2,489
Extraordinary item — gain (note 11)	—	680
Net earnings	\$ 523	3,169
Earnings per common share (note 12):		
Before extraordinary item	\$ —	.28
After extraordinary item	\$ —	.38

See accompanying notes to consolidated financial statements

**Consolidated Statement
of Retained Earnings
(Note 1)**

Year ended December 31, 1978 with comparative figures for 1977

	1978	1977
	(in thousands)	
Retained earnings :		
Balance at beginning of year, as previously reported	\$ 17,771	16,644
Prior year adjustment (Summary of Significant Accounting Policies)	<u>401</u>	<u>—</u>
Balance at beginning of year, as restated	<u>17,370</u>	16,644
Net earnings	<u>523</u>	<u>3,169</u>
	<u><u>17,893</u></u>	<u><u>19,813</u></u>
Dividends:		
Class A and B Common	368	655
First Preference	<u>—</u>	525
Second Preference	6	6
Series A Preference	<u>532</u>	28
Cost of reorganization (note 1)	<u>—</u>	258
Premium on conversion of convertible notes payable to Class A Common Shares (note 10)	<u>353</u>	1,766
Transfer from contributed surplus	<u>—</u>	<u>(795)</u>
	<u><u>1,259</u></u>	<u><u>2,443</u></u>
Balance at end of year	<u><u>\$ 16,634</u></u>	<u><u>17,370</u></u>

See accompanying notes to consolidated financial statements

**Consolidated
Statement of Changes
in Financial Position
(Note 1)**

Year ended December 31, 1978 with comparative figures for 1977

	1978	1977
	(in thousands)	
Financial resources provided by :		
Operations	\$ 11,817	9,481
Proceeds of issue of long-term debt	90,222	156,131
Proceeds of project fund	—	20,719
Proceeds of capital stock issued	2,310	8,171
Other — net	—	19,460
	<u>104,349</u>	<u>213,962</u>
Financial resources used for :		
Rental properties; hotels; property, plant and equipment	47,976	79,134
Increased investment in land, net (notes 5 and 6)	28,099	11,901
Repayment of long-term debt	19,947	78,441
Dividends	906	1,214
Capital stock redeemed (note 10)	989	37,110
Acquisition of businesses (note 6)	1,338	5,593
Other — net	46	—
	<u>99,301</u>	<u>213,393</u>
Decrease in bank indebtedness, net of cash	<u>\$ 5,048</u>	<u>569</u>

See accompanying notes to consolidated financial statements

**Consolidated Schedule
of Long-term Debt
Schedule 1**

December 31, 1978 with comparative figures for 1977

Debt applicable to :	Average interest rates at December 31, 1978	Total	
		1978 (in thousands)	1977
Rental properties:			
6½% to 13¾% mortgages, loans and bonds (ii)	9.23%	\$175,823	163,877
Amount due under financing arrangement (note 6)	9.90	38,000	38,000
Bank loans (note 8)	10.75	6,409	48,431
General Mortgage Bonds	11.00	22,400	23,000
First Mortgage Sinking Fund Bonds	11.18	135,608	49,883
Hotels:			
Bank loan (notes 8 and 14(b))(ii)	9.12	65,219	58,507
First Mortgage Sinking Fund Bonds	11.25	12,500	—
Land held for sale and development:			
5% to 13% mortgage loans (ii)	9.32	25,936	16,966
Bank loan (note 8)(ii)	12.11	12,294	1,092
Other:			
Share Purchase bank loan (notes 8 and 14(b))	7.83	30,499	29,510
Other bank loan (note 8)(ii)	14.13	5,336	—
Convertible notes payable (note 10)	6.63	2,544	3,180
Sundry loans and notes secured by specific mortgages receivable, machinery and property	11.08	1,478	2,325
	<u>9.93 %</u>	<u>\$534,046</u>	<u>434,771</u>

(i) Balances at December 31, 1978 are due as follows:

	Instalment Payments	Balance due at maturity	Total
		(in thousands)	
1979 ...	\$ 7,209	17,367	24,576
1980 ...	7,507	22,908	30,415
1981 ...	8,622	9,221	17,843
1982 ...	6,136	43,433	49,569
1983 ...	5,560	75,448	81,008
subsequent to 1983 ...	—	—	330,635
	<u>\$35,034</u>	<u>168,377</u>	<u>534,046</u>

(ii) Loans payable in the aggregate amount of \$64,757,000 U.S. are unhedged and are translated at \$76,742,000 Cdn. at December 31, 1978. In addition wholly owned U.S. subsidiary companies have loans payable in the aggregate amount of \$26,250,000 U.S. which are translated in the accounts at \$31,127,000 Cdn.

**Notes to Consolidated
Financial Statements**
December 31, 1978

1. Amalgamation

On January 3, 1978, the Corporation was amalgamated under the provisions of The Business Corporations Act (Ontario) with its wholly owned subsidiary Campeau Developments Limited. By resolution of both companies the fiscal year ends were extended from December 31, 1977 to January 2, 1978 in order

that the year end of each company coincide with the date of amalgamation. References to 1978 and 1977 in the accompanying consolidated balance sheet are as of December 31, 1978 and January 2, 1978 respectively and in the accompanying consolidated statements of earnings, retained earnings and changes in financial position are for the fiscal years then ended.

2. Analysis of Revenue and Cost of Sales

	1978	1977
	(in thousands)	
Revenue:		
Rental	\$ 73,396	56,096
Sales—housing	48,652	43,597
—residential rental properties converted to condominiums	5,417	15,402
—lumber and building products	39,092	24,656
—land	14,021	7,311
Hotel and restaurants	26,072	20,400
Other	2,519	2,342
	\$209,169	169,804

Cost of sales:

Rental property operating costs	\$ 29,652	27,919
Housing	51,365	44,911
Cost of residential rental properties sold as condominiums	4,602	13,038
Lumber and building products	35,728	22,740
Land	9,554	3,726
Hotel and restaurants	16,512	13,627
	\$147,413	125,961

Financing, general and administrative and depreciation expenses have not been allocated to segmented cost.

3. Accounts, Loans and Mortgages Receivable

	1978	1977
	(in thousands)	
Trade accounts, rents and other receivables	\$ 14,263	12,597
Amounts receivable on property transactions, interest bearing	13,636	11,978
Mortgages taken back on sales of housing, interest bearing	3,685	4,071
Receivable from officers	4,559	2,320
	\$ 36,143	30,966
Due within one year	\$ 18,600	17,000

The portions of accounts, loans and mortgages receivable which are due beyond one year relate mainly to mortgages taken back on sales of housing and to amounts receivable on sales of properties. Receivable from officers includes \$3,675,000 (1977 — \$1,519,000) from the trustee of the Stock Purchase Plan.

4. Inventories	1978	1977
	(in thousands)	
Housing, completed and in progress	\$ 51,234	58,132
Lumber and building products	7,379	7,736
Hotel and restaurant supplies	<u>889</u>	<u>611</u>
	<u><u>\$ 59,502</u></u>	<u><u>66,479</u></u>

Such inventories are valued at the lower of cost and estimated net realizable value.

5. Land Held for Sale and Development	1978	1977
	(in thousands)	
Balance at beginning of year	\$ 86,732	74,831
Additions during year:		
Acquisitions	35,850	4,159
Development costs	6,184	13,543
Carrying charges:		
Interest on general corporate borrowings	4,541	1,254
Interest on specific borrowings	2,714	1,872
Real estate taxes	1,494	1,022
Miscellaneous revenues	(237)	(163)
	<u>137,278</u>	<u>96,518</u>
Deductions during year:		
Disposals	9,367	3,639
Transfer to house construction	<u>1,936</u>	<u>6,147</u>
	<u>11,303</u>	<u>9,786</u>
Balance at end of year	<u><u>\$125,975</u></u>	<u><u>86,732</u></u>

In connection with the expropriation by the Province of Quebec of property at Mount Bruno, Quebec the Corporation was awarded \$4,208,000 plus interest, which approximates the net carrying value of this property. The Corporation has appealed this award and, in the opinion of management, ultimate proceeds on

settlement will exceed the carrying value. Accordingly, this transaction has not been recognized in the accounts. A deposit of \$2,500,000 has been received by the Corporation and is included in "Advances relating to land and housing".

6. Rental Properties; Hotels; Other Property, Plant and Equipment

	Rental Properties	Hotels	Other Property, Plant and Equipment	Total	
				1978	1977
Buildings, including construction (in thousands)					
in progress, at cost	\$366,736	61,572	4,563	432,871	381,228
Furnishings, equipment and machinery, at cost	6,612	10,996	10,869	28,477	24,440
	<u>373,348</u>	<u>72,568</u>	<u>15,432</u>	<u>461,348</u>	<u>405,668</u>
Less accumulated depreciation	<u>30,986</u>	<u>3,044</u>	<u>7,244</u>	<u>41,274</u>	<u>37,419</u>
	<u>342,362</u>	<u>69,524</u>	<u>8,188</u>	<u>420,074</u>	<u>368,249</u>
Land, at cost	<u>53,620</u>	<u>3,029</u>	<u>347</u>	<u>56,996</u>	<u>54,713</u>
Total	<u><u>\$395,982</u></u>	<u><u>72,553</u></u>	<u><u>8,535</u></u>	<u><u>477,070</u></u>	<u><u>422,962</u></u>

Under the terms of a financing transaction, the Corporation transferred title to Place de Ville, Phase II; concurrently leased back the premises; and, obtained an option to reacquire title to the land and buildings, which it intends to exercise. The reacquisition price of \$38,000,000 is recorded as long-term debt and the original cost

of the property continues to be carried as an asset and is being depreciated. During 1978 the Corporation purchased five commercial/industrial properties, a 50% interest in a shopping centre and land for sale and development. These acquisitions were accounted for as purchases and are summarized as follows:

	(in thousands)
Total assets, at values assigned	\$24,778
Total liabilities, at values assigned	<u>23,440</u>
Net assets acquired for cash	<u>\$ 1,338</u>

7. Other Assets and Deferred Charges	1978	1977
	(in thousands)	
Prepaid expenses	\$ 2,086	1,521
Deposits for land acquisitions and stand-by fees with various lending institutions	2,109	1,744
Unamortized premium to be paid on reacquisition of a rental property (note 6)	533	600
Unamortized discount and expenses on issue of long-term debt	3,446	3,025
Unamortized foreign exchange translation differences	7,260	2,310
Deferred hotel costs, less amortization	3,712	2,784
Unamortized hotel linen, tableware and uniform costs	1,837	1,391
Miscellaneous	<u>679</u>	<u>269</u>
	<u>\$ 21,662</u>	<u>13,644</u>

Pre-opening costs and operating costs net of revenue to December 31, 1978 in connection with L'Auberge de la Chaudiere, Hull, P.Q., were deferred as follows:

	(in thousands)
Pre-opening costs	\$ 379
Operating costs net of revenue	<u>1,565</u>
	<u>\$1,944</u>

8. Bank Indebtedness

- (a) Bank loans are secured as follows:
- (i) a general assignment of certain book debts;
 - (ii) a fixed charge on various properties owned by the Corporation; and
 - (iii) the assignment of proceeds of mortgage loans with respect to certain housing projects and rental properties under construction.

- (b) Bank loans other than "Bank indebtedness — short-term, secured" of \$31,716,000 (1977 — \$36,900,000) are as follows:

	1978	1977
	(in thousands)	
(i) Loans advanced in U.S. funds:		
Long-term debt:		
Rental properties	\$ 6,409	48,431
Hotels	65,219	58,507
Land	12,294	1,092
Other	5,336	—
Advances relating to land and housing	<u>23,507</u>	<u>9,261</u>
	<u>\$112,765</u>	<u>117,291</u>
U.S. dollar equivalent	<u>\$ 95,485</u>	<u>106,797</u>
(ii) Loan advanced in Canadian funds		
Share Purchase bank loan	<u>\$ 30,499</u>	<u>29,510</u>

9. Income Taxes

(a)

	1978	1977
	(in thousands)	
Currently payable	\$ (20)	126
Deferred	<u>3,254</u>	<u>(1,300)</u>
	<u><u>3,234</u></u>	<u><u>(1,174)</u></u>

The effective rate of income tax provided in the consolidated statement of earnings varies from the rates specified in the taxing statutes primarily because income debenture interest has been excluded in the determination of net income for tax purposes.

- (b) The Corporation has been advised that Revenue Canada, Taxation is considering reassessing certain capital gains on the disposition of a rental property as being gains of an income nature. Additionally certain hedging costs considered to be costs of borrowing may be reassessed as capital losses. The Corporation is continuing discussion of these matters with Revenue Canada,

Taxation and intends to appeal if such proposed reassessments are issued. In the opinion of management the Corporation has valid defenses.

- (c) The Corporation has a capital loss carry-forward, in the approximate amount of \$12,000,000 on which deferred income taxes have not been recognized, which at current rates of tax, represents an unrecorded deferred income tax benefit of approximately \$3,000,000. This loss may be carried forward indefinitely to reduce future capital gains and the potential benefit will be reflected in earnings when realized.

10. Capital Stock

The authorized and issued capital stock of the Corporation at December 31, 1978 and a summary of the changes therein during the year are as follows:

(a) *Second Preference Shares*

There are 1,000,000 3% non-cumulative, redeemable preference shares authorized and outstanding, with a par value of \$.20 each entitling the holder to ten votes per share.

(b) *Series A Preference Shares*

There are 20,000,000 non-voting Preference Shares authorized with a par value of \$5 per share, issuable in series, of which 1,600,000 were designated "Series A Preference Shares". These Series A Preference Shares carry a fixed cumulative dividend of 7% and are redeemable at any time at the option of the Corporation or, after December 1, 1987, at the option of the holder. 1,520,000 Series A Preference Shares are outstanding.

(c) *Class A Common Shares*

There are 565,276 Class A Common Shares authorized with a par value of \$7 per share, redeemable at the option of the holder at any time at a redemption price equal to \$7 per share plus all declared and unpaid dividends thereon. These Class A Common Shares are for issuance on conversion of the convertible notes payable.

During 1978, 141,319 Class A Common Shares were issued on conversion of a convertible note payable having a face amount

of \$635,936. The premium on conversion in the amount of \$353,000 was charged to retained earnings.

There are four remaining convertible notes payable in the amount of \$635,936 each (aggregating \$2,543,744) convertible in series into 141,319 (aggregating 565,276) Class A Common Shares of the Corporation after January 1 of each year from 1979 to 1982. The conversion feature for all of the notes expires upon maturity. The Class A Common Shares issuable on conversion, as well as those issued on conversion as referred to above, were unconditionally allotted at the time the notes were originally issued.

(d) *Class B Common Shares and Common Shares*

There are 10,000,000 Class B Common Shares authorized without par value and 10,000,000 Common Shares without par value; provided however, that the aggregate consideration for which the Class B Common Shares and Common Shares may be issued, shall not exceed in amount or value the sum of \$50,000,000. The Class B Common Shares are convertible at the option of the holder into Common Shares. During 1978, 330,000 Class B Common Shares were issued for a cash consideration of \$2,310,000 pursuant to the Stock Purchase Plan. At December 31, 1978 there were 3,919,366 Class B Common Shares outstanding.

	1978	1977
	(in thousands)	
Second Preference Shares	\$ 200	200
Series A Preference Shares	7,600	7,600
Class B Common Shares	<u>10,554</u>	<u>8,244</u>
	<u><u>\$18,354</u></u>	<u><u>16,044</u></u>

11. Extraordinary Item

	1978	1977
	(in thousands)	
Realization of deferred income tax benefit from capital loss carry-forward	<u>\$ —</u>	<u>680</u>

12. Earnings Per Share

Fully diluted earnings per share are \$(.04).

13. Remuneration of Directors and Officers

The aggregate direct remuneration paid by the Corporation to directors and senior officers as defined in The Business Corporations Act (On-

tario) was \$909,196 (1977 — \$821,712) of which the directors in their capacity as directors received \$77,300 (1977 — \$79,000).

14. Contingent Liabilities and Commitments

(a) The Corporation has entered into various lease commitments with original terms running to 99 years. Certain of these leases have escalation clauses requiring adjustments to rent at various dates based on the market value of the property or other factors. The aggregate minimum rentals payable under leases amount to approximately \$122,300,000 and those that are payable within the next ten years will be in the aggregate approximate annual amount

of \$4,400,000.

- (b) The Share Purchase bank loan and Hotel bank loan were converted to income debentures on January 25, 1978 and July 1, 1978 respectively and under certain conditions may be treated as ordinary debentures.
- (c) During 1978 the Corporation instituted a new pension plan. The unfunded liability with respect to past service pension costs amounts to approximately \$3,600,000 at December 31, 1978.

**Auditors' Report
to the Shareholders**

PEAT, MARWICK, MITCHELL & CO.
CHARTERED ACCOUNTANTS

112 Kent Street
Ottawa, Ontario
K1P 5P2

We have examined the consolidated balance sheet of Campeau Corporation as of December 31, 1978 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Corporation as of December 31, 1978 and the results of its

operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles which, except for the change in the method of accounting for interest on general corporate borrowings, and after giving retroactive effect to the changes in the methods of accounting for translation differences related to long-term debt denominated in foreign currencies and accounting for incorporated joint ventures, all as described in the Summary of Significant Accounting Policies, have been applied on a basis consistent with that of the preceding year.

Ottawa, Canada
February 19, 1979

Peat, Marwick, Mitchell & Co.
Chartered Accountants

**Five-Year
Financial Review**

	1978	1977	1976	1975	1974
(in thousands of dollars)					
Revenue					
Income Properties.....	\$ 73,396	56,096	51,683	49,574	43,372
Housing.....	54,069	58,999	65,694	51,573	19,594
Lumber and Building Products.....	39,092	24,656	30,173	25,949	22,764
Hotel.....	26,072	20,400	16,680	6,459	—
Land.....	14,021	7,311	7,369	4,929	2,337
Other.....	2,519	2,342	955	503	1,709
Total.....	\$209,169	169,804	172,554	138,987	89,776
Earnings					
Before extraordinary items....	\$ 523	2,890	5,590	7,568	5,421
After extraordinary items....	\$ 523	3,570	4,227	7,568	(8,379)
Cash Flow	\$ 11,817	9,481	12,488	17,467	15,058
Total Assets	\$721,036	625,856	545,684	481,695	422,591
Shareholders' Equity	\$ 34,988	33,815	57,849	54,839	47,446
(in dollars)					
Per Common Share					
Cash Flow.....	\$3.09	1.31	1.72	2.46	2.17
Earnings:					
Before extraordinary items...	—	.34	.73	1.02	.73
After extraordinary items....	—	.44	.53	1.02	(1.33)

Offices

Campeau Corporation	Postal address
<u>Head Office</u>	P.O. Box 450, Terminal A
2932 Baseline Road, Nepean, Ontario K2H 8T5	Ottawa, Ontario K1N 8R9
<u>Branch Offices</u>	
2137 Chemin Bord du Lac, Île Bizard, Québec H9C 1E2	902-11th Avenue South West, Suite 102, Calgary, Alberta T2R 0E7
44 King Street West, Suite 1806, Toronto, Ontario M5H 1E2	10026-102nd Street, 2nd Floor, Edmonton, Alberta T5J 0V6
Campeau Corporation California	
3931 MacArthur Boulevard, Suite 113, Newport Beach, California 92660	

Directors

David S. Beatty President, David S. Beatty Assets Limited, Toronto	David King Executive Vice-President, Campeau Corporation, Nepean
Thomas A. Boyles Honorary Director, The Bank of Nova Scotia, Toronto	Ronald B. McCartney President, Campeau Corporation, Nepean
Robert Campeau Chairman of the Board and Chief Executive Officer, Campeau Corporation, Nepean	Alan M. Mann, M.D. Montreal General Hospital, Montréal
William J. Carroll, C.A. Executive Vice-President, Finance, Campeau Corporation, Nepean	François Mercier, Q.C. Partner, Stikeman, Elliott, Tamaki, Mercier and Robb, Montréal
André Charron, Q.C. President, Lévesque, Beaubien Inc., Montréal	Jean C. Paradis Deputy Chairman, Campeau Corporation, Nepean
Robert Després President, National Cablevision Ltd. Québec	Robert L. Pierce, Q.C. Executive Vice-President, The Alberta Gas Trunk Line Company Limited, Calgary
	Frank Stronach Chairman and Chief Executive Officer, Magna International Inc., Toronto

Officers

Robert Campeau Chairman of the Board and Chief Executive Officer	Easton B. Brackenbury Vice-President, Residential Properties
Jean C. Paradis Deputy Chairman	Laurent P. Carr, LL.B. Vice-President, Secretary and Legal Counsel
Ronald B. McCartney President	Jean-Marie Gaudreault Vice-President, Project Planning
David King Executive Vice-President	Raymond M. Larocque Vice-President, Buildings Materials
William J. Carroll, C.A. Executive Vice-President, Finance	W. Alan Macfarlane, C.A. Vice-President, Accounting
J. Pierre Benoit, Q.C. Senior Vice-President	Lenard B. McQuarrie Vice-President, Land Development
Clément Cadieux Senior Vice-President, Special Projects	Roland Villemaire Vice-President, Cost Accounting
Raymond M. Chevrier Senior Vice-President, Heavy Construction	Timothy J. Walker Vice-President, Finance
John D. Topping Senior Vice-President, Properties	

Personnel-cadre

<p>Robert Brackenbury Vice-président exécutif, Propriétaires résidentielles Easton B. Brackenbury</p> <p>Laurent P. Carr, LL.B. Vice-président, Propriétaires résidentielles Jean-C. Paradi</p> <p>Frank Stronach Président du Conseil et directeur général Levée du Québec</p> <p>Robert Després Président, et directeur général Cablévision Internationale Inc., Montréal</p> <p>André Charbonneau Président, Levée du Québec, Beauhien Inc., Montréal</p> <p>William J. Carroll, C.A. Président du Conseil et directeur général Campeau Corporation, Népean</p> <p>Robert Campbau Hôpital général de Montréal, Montreal</p> <p>Alain M. Mam, M.D. Administrateur honoraire, Campeau Corporation, Népean</p>	<p>Robert Campbau Président, Montreal</p> <p>David King Président, Vice-président exécutif, Campeau Corporation, Népean</p> <p>Thomas A. Boyles Président, Administrateur honoraire, La Banque de Nouvelle-Ecosse, Toronto</p> <p>Robert Campbau Hôpital général de Montréal, Montreal</p> <p>Alain M. Mam, M.D. Administrateur honoraire, Campeau Corporation, Népean</p> <p>William J. Carroll, C.A. Président du Conseil et directeur général Campeau Corporation, Népean</p> <p>André Charbonneau Président, Levée du Québec, Beauhien Inc., Montréal</p> <p>Robert Després Président, et directeur général Cablévision Internationale Inc., Montréal</p> <p>Frank Stronach Président du Conseil et directeur général Levée du Québec Company Limited, The Alberta Gas Trunk Line Vice-président exécutif, Robert L. Piccetti, Crt.</p> <p>William J. Carroll, C.A. Président du Conseil et directeur général Campeau Corporation, Népean</p> <p>Robert Campbau Hôpital général de Montréal, Montreal</p> <p>Alain M. Mam, M.D. Administrateur honoraire, Campeau Corporation, Népean</p>
<p>Raymond B. McQuarrie Vice-président, aménagement des terrains Lenard B. McQuarrie</p> <p>Roland Villemaire Vice-président, prix de revient</p> <p>Timothy J. Walker Vice-président senior, finances</p>	<p>John Toppings Vice-président senior, construction lourde</p> <p>Raymond M. Chervier Vice-président senior, projets spéciaux</p> <p>Clement Cadieux Vice-président senior, finances</p>
<p>Alan Macfarlane, C.A. matériaux de construction W. Alan Macfarlane, C.A.</p> <p>William J. Carroll, C.A. Vice-président exécutif planification des projets</p> <p>Jean-Marie Gaudreault et conseiller juridique Vice-président, secrétaire</p>	<p>J. Pierre Benoît, Crt. Vice-président senior, finances</p> <p>William J. Carroll, C.A. Vice-président exécutif planification des projets</p> <p>Jean-C. Paradi Président délégué du Conseil et directeur général et conseiller juridique Vice-président, secrétaire</p>
<p>Raymond M. Larocque Vice-président, matériaux de construction W. Raymond M. Larocque</p> <p>David King Vice-président exécutif planification des projets</p> <p>Ronald B. McCarmey Président</p>	<p>David King Vice-président exécutif planification des projets</p> <p>William J. Carroll, C.A. Vice-président exécutif planification des projets</p> <p>John Toppings Vice-président senior, construction lourde</p>
<p>Lenard B. McQuarrie Vice-président, aménagement des terrains Lenard B. McQuarrie</p> <p>Roland Villemaire Vice-président, prix de revient</p> <p>Timothy J. Walker Vice-président senior, finances</p>	<p>John Toppings Vice-président senior, construction lourde</p> <p>Raymond M. Chervier Vice-président senior, projets spéciaux</p> <p>Clement Cadieux Vice-président senior, finances</p>

Conseil d'administration

Places d'affaires

Rapport des
verificateurs
aux actionnaires

PEAT, MARWICK, MITCHELL & CIE
COMPTABLES AGREES

COMPTABLES AGREES

112 Rue Kent

Ottawa, Ontario

Nous avons vérifié le bilan consolidé de Compagnie au 31 décembre 1978 ainsi que les états consolidés des résultats, des bénéfices non partis de l'exercice terminé à cette date. Notre vérification a été effectuée conformément aux normes de vérification générément reconnues et a comporté par conséquent des sondages et autres procédés que nous avons jugés nécessaires dans les circonstances.

À notre avis, ces états financiers sont présentement fidélement la situation financière de la Compagnie au 31 décembre 1978 ainsi que les résultats de l'année.

Ottawa, Canada
19 février 1979
Comptables agréés

100% of the energy consumed by the U.S. economy is derived from fossil fuels.

Actions privilégiées de second rang	\$ 200	200	1978	1977	Actions privilégiées série A	7,600	7,600	10,554	8,244	Actions ordinaires classe B	18,354	16,044	1978	1977	Realisation de l'avantage d'impôts sur le revenu reportés (en milliers)	Le bénéfice par action entièrement dilué est de \$ (0,4).	12. Bénéfice par action

13. Remunération des administrateurs	Corporations Act (Ontario), a été de \$909,196 et des dirigeants (1977 — \$821,712). De ce montant les admis- nistrateurs ont reçu \$77,300 (1977 — \$79,000) en tant qu'administrateurs.	La remunération totale directe versée par la Compagnie à ses administrateurs et cadres couvrant des périodes allant jusqu'à 99 ans.	(a) La Compagnie a concédé diverses baux réspectivement et sous certaines conditions prévues entre traités comme des débentures ouvertes au 25 Janvier 1978 et au 1er Juillet 1978 (c) Au cours de 1978 la Compagnie a institué un nouveau régime de retraite. Le passeur ordinaire.	de la valeur marchande de la propriété et d'autres facteurs. Les loyers globaux exigent au moins deux fois plus que la base de la valeur marchande de la propriété et peuvent être traités comme des débentures semé du loyer à diverses dates sur la base clauses d'augmentation exigent le redres-	mième au pays suivant ces baux se déviendront dans au cours des deux dernières années environ \$122,300,000 et ceux qui sont globaux de \$4,400,000.

14. Passif éventuel et engagements	(b) L'emprunt bancaire pour acheter d'actions et l'emprunt bancaire réalisé à l'hôtel ont été couverts en débentures à intérêt conditionnel au 25 Janvier 1978 et au 1er Juillet 1978 (a) La Compagnie a concédé diverses baux réspectivement et sous certaines conditions prévues entre traités comme des débentures ouvertes au 25 Janvier 1978 et au 1er Juillet 1978 (c) Au cours de 1978 la Compagnie a institué un nouveau régime de retraite. Le passeur ordinaire.	Couvrant des périodes allant jusqu'à 99 ans. Certains de ces baux comprennent des clauses d'augmentation exigent le redres- semé du loyer à diverses dates sur la base de la valeur marchande de la propriété et d'autres facteurs. Les loyers globaux exigent au moins deux fois plus que la base de la valeur marchande de la propriété et peuvent être traités comme des débentures semé du loyer à diverses dates sur la base clauses d'augmentation exigent le redres-	de la valeur marchande de la propriété et d'autres facteurs. Les loyers globaux exigent au moins deux fois plus que la base de la valeur marchande de la propriété et peuvent être traités comme des débentures semé du loyer à diverses dates sur la base clauses d'augmentation exigent le redres-	de la valeur marchande de la propriété et d'autres facteurs. Les loyers globaux exigent au moins deux fois plus que la base de la valeur marchande de la propriété et peuvent être traités comme des débentures semé du loyer à diverses dates sur la base clauses d'augmentation exigent le redres-	de la valeur marchande de la propriété et d'autres facteurs. Les loyers globaux exigent au moins deux fois plus que la base de la valeur marchande de la propriété et peuvent être traités comme des débentures semé du loyer à diverses dates sur la base clauses d'augmentation exigent le redres-

(i) Prêts avancés en dollars E.-U.	\$ 30,499	29,510	Empreunt bancaire pour achat d'actions
.....	\$ 95,485	106,797	Prêts avancés en dollars canadiens:
.....	\$112,765	117,291	Equivalent en dollars E.-U.
Avances ayant trait à des terrains et à des habitations	23,507	9,261	.....
Autres	5,336	—	.....
Terrains	12,294	1,092	.....
Hôtels	65,219	58,507	.....
Propriétés à revenu	\$ 6,409	48,431	.....
.....	1978	1977	Dette à long terme:
(en milliers)			(i) Prêts avancés en dollars E.-U.

(b) Les emprunts bancaires autres que la « Dette bancaire — court terme, garantie » de \$31,716,000 (1977 — \$36,900,000) sont comme suit:

(i) une cession générale de certains projets domiciliaries et propriétés à revenu en chantier.	me suit:	par La Compagnie, et
.....	.....	(iii) une charge fixe sur divers terrains détenus clients;
hyothécaires relatifs à certains projets chantier.	.....	(ii) une charge fixe sur divers terrains détenus clients;
(iii) la cession du produit des emprunts	.....	(i) une charge fixe sur divers terrains détenus clients;

(a) Les emprunts bancaires sont garantis comme suit:

Frais de mise en marché	\$ 379	1,565	Cout d'exploitation moins le revenu
.....
(en milliers)			

Les frais de mise en marché et les couts d'exploitation moins le revenu au 31 décembre 1978 en rapport avec L'Auberge de la Chaudière, Hull, Québec, ont été reportés comme suit:

Frais payés d'avance	\$ 2,086	1,521	Dépôts sur acquisition de terrains et hommages
.....
(en milliers)			
1978	1977		7. Autres éléments d'accif et frais reportés

Total de l'accif à la valeur attribuée	\$ 24,778	23,440	Total net achats pour espèces
.....
(en milliers)			

Selon les termes d'une transaction de finance-ment, La Compagnie a transposé les titres sur place de Ville, Phase II, à en même temps louer immobiliers, option qu'elle a limitation permettant de reprendre les titres sur le terrain les lieux où est fait accorder une option lui permettant de faire valoir son droit d'exercer. Le prix de réacquisition de ces acquisitions, les immobiliers, pour vente est mis en valeur. Ces acquisitions, dont le sommaire suit, figurent dans les achats:

Au cours de 1978 la Compagnie a acquises cinq immeubles commerciaux/industrielles, un immeuble dans un centre commercial et un terrain de 50% dans un terrain commercial, qui interdit de 38,000,000 est inscrit comme dette à long terme d'exercer. Le prix de réacquisition de ces acquisitions, dont le sommaire suit, figurent dans les achats:

et le coût original des immeubles est toujours inscrit comme actif et est amorti.

Selon les termes d'une transaction de finance-ment, La Compagnie a transposé les titres sur place de Ville, Phase II, à en même temps louer immobiliers, option qu'elle a limitation permettant de reprendre les titres sur le terrain les lieux où est fait accorder une option lui permettant de faire valoir son droit d'exercer. Le prix de réacquisition de ces acquisitions, les immobiliers, pour vente est mis en valeur. Ces acquisitions, dont le sommaire suit, figurent dans les achats:

Au cours de 1978 la Compagnie a acquises cinq immeubles commerciaux/industrielles, un immeuble dans un centre commercial et un terrain de 50% dans un terrain commercial, qui interdit de 38,000,000 est inscrit comme dette à long terme d'exercer. Le prix de réacquisition de ces acquisitions, les immobiliers, pour vente est mis en valeur. Ces acquisitions, dont le sommaire suit, figurent dans les achats:

et le coût original des immeubles est toujours inscrit comme actif et est amorti.

\$ 59,502

	Stocks	1978	1977
Habitations terminées et en chantier (en milliers)	\$ 51,234	58,1	67,7
Bolis et matériau de construction	\$ 7,379	7,7	6
Fournitures d'hôtel et de restaurant	\$ 889	889	96,4
	\$ 59,502	66,4	96

Tableau I dette à long terme

(ii) Les emprunts à payer au montant global de \$64,757,000 U.S. ne sont pas subcrites et sont converties en \$76,742,000 canadiens au 31 décembre 1978. De plus, les filiales américaines détiennent en propriété exclusive ont des emprunts à payer au montant global de \$26,250,000 U.S. qui sont convertis dans les compétences en \$31,127,000 canadiens.

31 décembre 1978 avec chiffres correspondants de 1977

Etat consolidé de l'exploitation de la situation financière (note 1)

Exercice terminé le 31 décembre 1978 avec chiffres correspondants de 1977	
1978	1977
9,481	\$ 11,817
156,131	90,222
20,719	2,310
19,460	—
213,962	104,349
Utilisation des ressources financières :	
Produit de l'émission de dette à long terme	Produit du fonds pour projets
Produit de l'émission de dette à long terme	Produits de l'émission de capital-actions
Autres — montant net	Autres — montant net
19,134	47,976
Augmentation du placement en terrains, installations et équipement	Propriétés à revenu; hôtels; propriétés, autres — montant net (notes 5 et 6)
11,901	28,099
78,441	19,947
1,214	906
37,110	989
5,593	1,338
46	—
Diminution de la dette bancaire, moins l'encaisse	Autres — montant net
213,393	99,301
\$ 5,048	.....

Voir les notes annexées aux états financiers consolidés.

Provenance des ressources financières :	
Exploitation	Produit de l'émission de dette à long terme
9,481	156,131
20,719	2,310
19,460	—
213,962	104,349
Utilisation des ressources financières :	
Produits à revenu; hôtels; propriétés, installations et équipement	Augmentation du placement en terrains, installations et équipement
11,901	28,099
78,441	19,947
1,214	906
37,110	989
5,593	1,338
46	—
Autres — montant net	Autres — montant net
213,393	99,301
\$ 5,048	.....

<i>Etat consolidé des bénéfices non répartis (note I)</i>	
<i>Exercice terminé le 31 décembre 1978 avec chiffres correspondants de 1977</i>	
<i>Bénéfices non répartis :</i>	
1978	1977
(\$ en milliers)	
\$ 17,771	16,644
Soldé au début de l'exercice, tel que présenté antérieurement	
401	—
(sommaire des procédés comptables importants)	
17,370	16,644
Redressement de l'exercice antérieur	
523	3,169
Bénéfice net	
17,893	19,813
Dividendes:	
Ordinaire classes A et B	655
Privilège de premier rang	525
Privilège de second rang	6
Privilège de série A	28
Frais de reorganisation (note I)	532
Prime sur la conversion de billets à payer convertibles en actions ordinaires classe A (note 10)	353
Vire du surplus d'apport	(795)
Soldé à la fin de l'exercice	1,766
2,443	1,259
2,443	1,259
\$ 16,634	17,370
<i>Voir les notes annexées aux états financiers consolidés.</i>	

Etat consolidé des résultats (note 1)

Exercice terminé le 31 décembre 1978 avec chiffres correspondants de 1977

Revenue (note 2)	\$209,169 (en milliers)	169,804
Frais (note 2):		
Coût des produits vendus		
Financement	25,475	11,790
Frais généraux et d'administration	37,224	15,390
Amortissement	6,110	—
Gain à l'alléniation de propriété à revenu	168,489	168,489
Impôts sur le revenu (note 9)	1,315	—
Benefice avant poste extraordinaire	3,757	1,174
Poste extraordinaire — gain (note 11)	523	2,489
Benefice net	—	680
Bénéfice par action ordinaire (note 12):	3,169	—
Avant poste extraordinaire	28	—
Après poste extraordinaire	—	.38

31 décembre 1978 avec chiffres correspondants de 1977

Actif			
Encaisse	\$ 684	820	
Comptes-clients, prêts et hypothèques à recevoir (note 3)	36,143	30,966	
Stocks (note 4)	59,502	66,479	
Terrains détenus pour vente et mise en valeur (note 5)	125,975	86,732	
Propriétés à revenu; hôtels; autres propriétés, installations et équipement (note 6)	477,070	422,962	
Autres éléments d'actif et frais reportés (note 7)	21,662	13,644	
Passif			
Dette bancaire — court terme, garantie (note 8)	\$ 31,716	36,900	
Comptes-fournisseurs et frais courus	41,501	42,683	
Avances relatives aux habitations	42,036	40,787	
Dette à long terme, selon le tableau I ci-annexe	534,046	434,771	
Impôts sur le revenu reportés	36,749	33,048	
Avoir des actions (note 10)	18,354	16,044	
Bénéfices non répartis selon l'état ci-annexe	16,634	17,370	
Total de l'avoir des actionnaires	34,988	33,414	
Passif événuel et engagements (notes 9 et 14)			
Voir les notes annexées aux états financiers consolidés.			

Au nom du Conseil d'administration:

administrateur

administrateur

J.P. MacLennan

Sommaire des procédés

<p>Généralités</p> <p>La Compagnie est membre du Canadian Institute of Public Real Estate Com-</p> <p>normes de divulgation financière de la Compagnie sont avec les recommandations de l'Institut sous toutes les aspects importants.</p>	<p>Principes de consolidation</p> <p>Le passif, les revenus et les frais des propriétés avec d'autres; et net :</p> <p>(iii) L'élimination de tous les soldes et transactions intercomparables d'impôt-</p>	<p>(ii) Les comptes de la Compagnie et de toutes ses filiales en exploitation;</p> <p>(iii) Les états financiers consolidés compren-</p>	<p>(i) La Compagnie a changé de lagon rétroactive son procédé comparabile ce qui concerne les différences de con-</p>	<p>terme exprimée en devises étrangères. Ces différences sont maintenues.</p>	<p>amorties sur la durée restante de la dette pliée sur la date originaire de la dette, ce qui était la pratique précédente. L'effet de ce changement bénéfice et le bénéfice par action de \$1,267,000 et 1977 de \$401,000 et \$.06 respec-</p>	<p>tive. (ii) A comparer du 1er janvier 1978, la compagnie a changé son procédé comparabile comparabile en ce qui concerne la capitalisation de l'impôt sur les emprunts géreraux de la Compagnie et au profit des intérêts minoritaires et n'a pas d'effet sur le bénéfice net.</p>
<p>Terrains détenus pour vente et mise en valeur</p> <p>tant et les intérêts sur les fonds empruntés, y compris une répartition de l'intérêt sur les emprunts généreraux de la Compagnie.</p>	<p>De plus, la valeur comparable des terrains en voie d'aménagement comprend le coût total estimatif des services municipaux et autres coûts encourus à ce jour. Les</p>	<p>autres coûts encourus nets tirés des terrains va-</p>	<p>rentiers d'argenterie provenant de ladite</p>	<p>construction ou à la location. On considère que les hôtels détails prolongés dans la construction ou</p>	<p>aussi inclus dans la valeur comparable des taxes foncières, l'intérêt et les frais</p>	<p>issuement accumulé. Le coût comprend les propriétés au bilan au coût moins l'amor-</p>
<p>Propriétés à revenu et hôtels</p> <p>revenu, des propriétés à revenu en chan-</p>	<p>tier ont été ajoutées à la valeur comparable des propriétés jusqu'à la fin des travaux.</p>	<p>On considère qu'une propriété à revenu</p>	<p>est complète lorsqu'elle possède le point-mort des propriétés d'argenterie provenant de</p>	<p>rentiers complètes à la date d'ouverture.</p>	<p>Les coûts de mise en chantier, moins le</p>	<p>d'exploitation, moins le revenu de la date</p>
<p>Frais reportés relatifs à l'hôtel</p> <p>d'ouverture jusqu'à la date où l'hôtel sera en pleine exploitation, sont reportés et</p>	<p>details prolon-</p>	<p>gés dans la construction ou</p>	<p>aussi inclus dans la valeur comparable des</p>	<p>coûts de mise en chantier, moins le</p>	<p>édifices.</p>	<p>des frais de mise en marche et les coûts</p>
<p>Principes de procédé comparabile</p> <p>de la Compagnie, excepté hypothé-</p>	<p>que spécifiques, au coût moyen des emprunts généraux de la Compagnie.</p>	<p>Précédemment, seul l'intérêt relatif aux emprunts généraux de la Compagnie</p>	<p>terrains spécifiques importantes trait</p>	<p>ce d'autre estimer la fraction non détenue</p>	<p>au prix coutant et les terrains détenu</p>	<p>Les propriétés à revenu et les hôtels sont</p>
<p>Comptables importants</p>	<p>normes de divulgation financière de la</p>	<p>mandations de l'Institut sous toutes les</p>	<p>pannes. Les politiques comparables et les</p>	<p>pannes. Les états financiers consolidés compren-</p>	<p>net :</p>	<p>Frais reportés relatifs à l'hôtel</p>

Sommaire des propriétés à revenu

Plutôt, ces taux d'intérêts élévés ont un effet contraire sur la demande de logement et de matériaux de construction. Les marchés traditionnels de l'est du pays. En conséquence, la Corporation accélère sa politique d'expansion des activités de construction d'habitations et d'aménagement de terrains selon un caractère géographique qui lui permettra de réduire les risques cycliques de ses secteurs radicaux. L'acquisition de propriétés commerciales à revenus de grande qualité dans les grands centres de croissance du Canada et des États-Unis.

Au nom du Conseil d'administration, Le Conseil d'administration tient à remercier la direction et le personnel de la Corporation pour leur dévouement et leur appui soutenu pour l'an-

Le président du Conseil et directeur général,
R. Gagnon et Frères de Roberval, Vers le milieu de 1978, la Cor-

poration a vendu ses actifs et ses sociétés relatives à sa division européenne de fermetures de tout. Au dernier trimestre, les opéra- tions du secteur des matériau de ferme avons mis un terme aux opérations manufac- turières non rentables. Tous les coûts afférents à ces mesures de fermeture d'opérations manufac- turières ont été réalisées en 1978. Dans le domaine de l'hôtellerie, un taux de chambres plus élevés que la moyenne ont permis à l'hôtel Harbour Castle de se démarquer dans les résultats en 1978, comparativement à ce qu'il était en 1977, son rendement d'exploitation en 1978, même si les augmentations cons- tituantes des coûts administratifs, des taxes et des coûts du financement continuent de saper les bénéfices de cetteur. 1979, même si les augmentations cons- tituantes des coûts administratifs, des taxes et des coûts du financement continuent de saper les bénéfices de cetteur.

L'année 1978 a apporté bien peu de remèdes aux problèmes fondamentaux auxquels fait face l'économie canadienne. Le pays enregistre encore un taux inaccé- table de chômage et d'inflation. Les taux d'intérêts qui sont demeurés élevés n'ont pas eu l'effet désiré d'encourager les investissements nécessaires pour alléger les pressions constantes sur le dollar canadien.

Financials

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RAPPORT INTERIMAIRE AUX ACTIONNAIRES

Six mois terminés le 30 juin 1978
Campeau Corporation

INTERIM REPORT TO SHAREHOLDERS

Six months ended June 30, 1978
Campeau Corporation *File*

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Report to Shareholders

We are pleased to present this financial report for the six month period ending June 30th, 1978.

Net earnings for the first half of the year were \$677,000 or \$0.11 per common share compared with \$2,422,000 or \$0.31 per share for the same period in 1977. Cash flow totalled \$5,892,000 or \$1.56 per share compared with \$6,796,000 or \$0.94 per share last year. The second quarter was particularly gratifying with earnings of \$0.67 and cash flow of \$1.74 per share as against \$0.25 and \$0.66 respectively in 1977. Total book value of assets at June 30, 1978 was \$684,480,000.

Revenues and profit from our existing portfolio of income producing properties continue well ahead of 1977 levels. Continued growth is projected for this division particularly with the completion and coming fully on stream in the second half of 1978 of Les Terrasses de la Chaudière, the Oshawa Shopping Centre expansion and Le Carrefour Rimouski. In addition the Corporation has been aggressively pursuing a number of new commercial opportunities in both Canada and the United States and expects to release details on major developments in the next quarter.

In the housing division, the number of sales closed during the first half of 1978 was sharply lower than in 1977 (356 versus 671). Demand has improved somewhat but remains relatively soft in the Montreal and National Capital regions. Our operations in Toronto and Calgary are ahead of projections in terms of both volume and profitability. Inventories of completed housing units have now been brought sufficiently into balance to permit the start of new construction on selected types of housing units in three areas in Ottawa and at one location in Montreal. Additionally, with Phase I over 90% sold, Phase II of the Point McKay Condominium project in Calgary is scheduled to start shortly.

Sales in the lumber and building products division are significantly ahead of last year's level and reflect the return to normal levels of production at Gagnon & Frères de Roberval.

Revenues from land sales were also well above 1977 levels and include transactions in Île Bizard, Québec,



Rapport aux actionnaires

Il nous fait plaisir de vous présenter ce rapport financier intérimaire pour la période de six mois se terminant le 30 juin 1978.

Les bénéfices nets de la Corporation pour le premier semestre s'élèvent à \$677,000, soit 11 cents par action ordinaire comparativement à \$2,422,000 ou 31 cents par action ordinaire pour la même période l'an dernier. La circulation de fonds s'établissait à \$5,892,000, soit \$1.56 par action comparativement à \$6,796,000 ou 94 cents par action pour la même période l'an dernier. Le deuxième trimestre a été particulièrement profitable avec des bénéfices de 67 cents et une circulation de fonds de \$1.74 par action comparativement à des bénéfices de 25 cents et une circulation de fonds de 66 cents en 1977. La valeur au livre de nos actifs au 30 juin 1978 s'établissait à \$684,480,000.

Les revenus et les bénéfices provenant de notre portefeuille de propriétés à revenu se maintiennent bien en avant de ceux que nous avons connus pour 1977. Nous envisageons une croissance soutenue pour ce secteur d'activités avec la fin des travaux et l'occupation complète du complexe Les Terrasses de la Chaudière, la fin des travaux d'agrandissement du centre commercial Oshawa et la fin des travaux de construction du Carrefour Rimouski. De plus, la Corporation s'intéresse à un certain nombre de nouvelles occasions d'affaires tant au Canada qu'aux Etats-Unis et nous croyons être en mesure d'annoncer les détails au cours du prochain trimestre.

Dans le secteur de l'habitation, le nombre de ventes conclues au cours du premier semestre de 1978 a connu une diminution (356 ventes comparativement à 671 ventes pour la même période en 1977). La demande s'est améliorée quelque peu mais demeure toujours faible dans la région de Montréal et dans la région de la Capitale nationale. Nos entreprises de Toronto et de Calgary dépassent nos prévisions en volume et en rentabilité. Nos inventaires de maisons neuves ont maintenant été réduits suffisamment pour nous permettre d'entreprendre la mise en chantier de certains types d'habitation à trois emplacements à Ottawa et à un endroit à Montréal. De plus, la phase I du projet de condominiums de Point McKay étant vendue à 90 pour cent, nous entreprendrons bientôt la

construction de la phase II de ce projet à Calgary.

Les ventes de bois et de matériaux de construction dépassent largement celles de l'année dernière à la même date, grâce au retour à la normale du niveau des activités chez Gagnon et Frères de Roberval.

Les revenus provenant des ventes de terrains sont également à la hausse comparativement à ceux de 1977. Ces ventes de terrain ont eu lieu à l'Île Bizard, Ottawa, Calgary et dans le nord de la Californie. La Division de l'aménagement des terrains a récemment négocié des options d'achat sur quelque 4,200 acres de terrain résidentiel situé dans le sud de la Californie; nous sommes à établir une succursale à Newport Beach afin de participer activement à la croissance du marché immobilier de cette région.

Le taux d'occupation et le prix moyen des chambres de l'hôtel Toronto Harbour Castle Hilton continuent de s'améliorer et l'on s'attend à ce que cette tendance se maintienne jusqu'à la fin de l'année.

Notre nouvel hôtel, l'Auberge de la Chaudière, à Hull, Québec est présentement dans sa période de rodage et nous avons reçu plusieurs commentaires favorables sur la qualité du design et la décoration intérieure.

Devant la croissance économique lente que l'on prévoit au Canada pour le deuxième semestre de 1978 et devant la faiblesse des marchés traditionnels de l'habitation d'Ottawa et de Montréal, la Corporation poursuit sa politique d'expansion géographique dans le domaine de l'habitation et de l'aménagement des terrains afin de réduire les risques cycliques auxquels ces secteurs de développement sont exposés.

Simultanément, la Corporation continuera de mettre beaucoup d'accent sur la mise en valeur et l'acquisition de propriétés à revenu de grande qualité à cause de la stabilité et de la croissance soutenue de ce secteur du marché immobilier.

Au nom du Conseil d'administration,
le président,

le président du Conseil
et directeur général,

R.B. Cartney Robert Cartney
Ottawa
le 9 août 1978

État consolidé des bénéfices

Six mois terminés le 30 juin	1978	1977
	(en milliers)	
Revenu:		
Location	\$ 34,796	28,468
Ventes		
— habitations	18,682	25,001
— propriétés à revenu résidentielles converties en condominiums	2,280	9,253
— bois et matériaux de construction	20,671	9,509
— terrains	7,155	3,369
Hôtel et restaurants	11,518	8,737
Autre	942	1,012
	96,044	85,349
Coût des ventes:		
Frais d'exploitation des propriétés à revenu	15,131	14,064
Habitations	19,327	24,460
Coût des propriétés à revenu résidentielles vendues en condominiums	1,946	7,723
Bois et matériaux de construction	18,420	8,312
Terrains	3,954	1,433
Hôtel et restaurants	7,734	6,055
	66,512	62,047
Profit brut	29,532	23,302
Intérêt	18,648	11,538
Frais généraux et administration	7,263	5,779
Dépréciation et amortissement	2,771	2,605
	850	3,380
Gain à la vente de propriété à revenu	725	—
	1,575	3,380
Impôt sur le revenu	865	864
Intérêts minoritaires	33	94
Bénéfices nets	\$ 677	2,422
Bénéfice par action ordinaire	\$.11	.31
Circulation de fonds par action ordinaire	\$ 1.56	.94

Etat consolidé des changements dans la situation financière

Six mois terminés le 30 juin	1978	1977
	(en milliers)	
Provenance des ressources financières:		
Exploitation	\$ 5,892	6,796
Hypothèques, billets et emprunts	32,963	88,367
Produit du fonds de construction	9,492	20,719
Produit d'émission de capital-actions — ordinaires	—	56
	\$ 48,347	115,938
Utilisation des ressources financières:		
Hôtel, propriétés à revenu et propriétés, installations et équipement	\$ 27,438	50,365
Remboursement de la dette à long terme	7,297	58,914
Fonds déposés chez le fiduciaire	9,492	—
Dividendes versés	445	931
Remboursement (augmentation) de la dette bancaire	1,774	(2,428)
Acquisition d'entreprises		
Terrains et propriétés à revenu	\$ 20,523	
Passif supporté	19,940	583
Autre — montant net	1,318	8,156
	\$ 48,347	115,938

Notes se rapportant aux états financiers

1. Le bénéfice dilué par action est sensiblement le même que le bénéfice de base par action.
2. La Corporation a mis sur pied un nouveau Fonds de retraite qui exige des apports de capitaux rétroactifs d'un montant approximatif de \$3,800,000, lequel montant est mis en provision et sera débité des gains en versements annuels pendant une période de 15 années commençant en 1978.
3. A compter de la fin administrative du 30 juin 1978, une certaine dette de \$55,000,000 E.U. fut convertie en une obligation de revenu.

Consolidated Statement of Earnings

Six months ended June 30	1978	1977
(in thousands)		
Revenue:		
Rental	\$ 34,796	28,468
Sales		
— housing	18,682	25,001
— residential rental properties converted to condominiums	2,280	9,253
— lumber and building products	20,671	9,509
— land	7,155	3,369
Hotel and restaurants	11,518	8,737
Other	942	1,012
	96,044	85,349
Cost of Sales:		
Rental property operating costs	15,131	14,064
Housing	19,327	24,460
Cost of residential rental properties converted to condominiums	1,946	7,723
Lumber and building products	18,420	8,312
Land	3,954	1,433
Hotel and restaurants	7,734	6,055
	66,512	62,047
Gross Profit	29,532	23,302
Interest	18,648	11,538
General and administrative	7,263	5,779
Depreciation and amortization	2,771	2,605
	850	3,380
Gain on sale of rental property	725	—
	1,575	3,380
Income taxes	865	864
Minority interests	33	94
Net Earnings	\$ 677	2,422
Earnings per Common Share	\$.11	.31
Cash Flow per Common Share	\$ 1.56	.94

Consolidated Statement of Changes in Financial Position

Six months ended June 30	1978	1977
(in thousands)		
Fincial resources provided by:		
Operations	\$ 5,892	6,796
Mortgages, notes and loans	32,963	88,367
Proceeds of project fund	9,492	20,719
Proceeds of capital stock issued — common	—	56
	\$ 48,347	115,938
Financial resources used for:		
Hotel, rental properties and property, plant and equipment	\$ 27,438	50,365
Repayment of long-term debt	7,297	58,914
Funds deposited with trustee	9,492	—
Dividends paid	445	931
Decrease (Increase) bank indebtedness	1,774	(2,428)
Acquisition of businesses		
Land and rental properties	\$ 20,523	
Liabilities assumed	<u>19,940</u>	583
Other - net	1,318	8,156
	\$48,347	115,938

Notes to Financial Statements

1. Fully diluted earnings per share are not materially different from basic earnings per share.
2. The Corporation has instituted a new pension plan requiring past service contributions of approximately \$3,800,000 which is being funded and charged to earnings in annual instalments over 15 years commencing in 1978.
3. Effective at the end of business June 30, 1978, certain debt of \$55,000,000 U.S. was converted to an income debenture.

Ottawa, Calgary and Santa Clara County in Northern California. The land development division recently expanded its activities into Southern California by way of securing options on approximately 4,200 acres of prime residential land located in Orange County. We are now establishing a branch operation in Newport Beach, and look forward to participating in the growth of this very dynamic real estate market.

Occupancy levels and average room rates at the Toronto Harbour Castle Hilton continue to improve and it is anticipated that this trend will continue for the balance of the year.

Our new hotel, l'Auberge de la Chaudière, in Hull, Québec, is now in the "running-in" phase and has already received very favourable comments on its functional design and attractive decor.

With the slow economic growth projected in Canada for the balance of 1978 and noting the current weakness in the Corporation's traditional housing markets of Ottawa and Montreal, the Corporation is continuing its policy of expanding its housing and land development operations geographically in order to reduce the cyclical risks inherent in these areas of development.

Concurrently, the Corporation will continue to place strong emphasis on the development and ownership of high quality commercial income producing properties, in view of the stability and growth characteristics of this sector of real estate activity.

On behalf of the Board of Directors,

Robert Cartney Robert Cartney

President

Chairman and
Chief Executive Officer

Ottawa,
August 9th, 1978.